

WAYNE COUNTY RETIREMENT FACILITIES

WAYNESBORO, TENNESSEE

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION
AND
REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2008 AND 2007

WAYNE COUNTY RETIREMENT FACILITIES

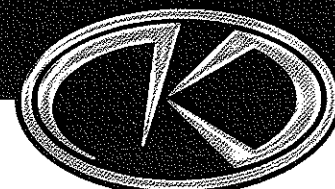
WAYNESBORO, TENNESSEE

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REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2008 AND 2007

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KraftCPAs
PLLC

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Wayne County General Hospital Board of Trustees
Wayne County Retirement Facilities
Waynesboro, Tennessee

We have audited the accompanying statements of net assets of the Wayne County Retirement Facilities (the "Facilities"), a component unit of Wayne County, Tennessee, as of June 30, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Facilities' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the accounts and operations of the Wayne County Retirement Facilities and are not intended to present fairly the financial position of Wayne County, Tennessee, or the results of its operations and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America.

The Facilities have not presented a Management's Discussion and Analysis that under accounting principles generally accepted in the United States is required to supplement, although not required to be a part of, the basic financial statements.

In our opinion, except for the omission of a Management's Discussion and Analysis, as stated in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Wayne County Retirement Facilities as of June 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS (CONTINUED)

In accordance with *Government Auditing Standards*, we have also issued a report dated June 29, 2009, on our consideration of the Facilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the above-mentioned basic financial statements taken as a whole. The accompanying additional information, as listed in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kraft+CPAs PLLC

Columbia, Tennessee
June 29, 2009

WAYNE COUNTY RETIREMENT FACILITIES

STATEMENTS OF NET ASSETS

JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents - unrestricted - Note 2	\$ 516,701	\$ 375,142
Resident accounts receivable, net of allowance for uncollectible accounts of \$80,535 and \$115,000, respectively	18,548	77,913
Notes receivable - current portion - Note 3	1,684	1,589
Other receivables	-	4,343
Prepaid insurance	35,206	24,809
Inventories	<u>19,727</u>	<u>17,853</u>
 TOTAL CURRENT ASSETS	 <u>591,866</u>	 <u>501,649</u>
 ASSETS LIMITED AS TO USE		
Cash and cash equivalents - restricted - Note 2	<u>12,377</u>	<u>13,840</u>
 TOTAL ASSETS LIMITED AS TO USE	 <u>12,377</u>	 <u>13,840</u>
 OTHER ASSETS		
Bond issue costs, net of accumulated amortization	55,943	57,510
Notes receivable, excluding current portion - Note 3	<u>52,869</u>	<u>54,554</u>
 TOTAL OTHER ASSETS	 <u>108,812</u>	 <u>112,064</u>
 LAND, BUILDING AND EQUIPMENT - at cost, net of accumulated depreciation - Note 4		
	<u>3,320,540</u>	<u>3,609,064</u>
 TOTAL ASSETS	 <u>\$ 4,033,595</u>	 <u>\$ 4,236,617</u>

See accompanying notes to financial statements.

	<u>2008</u>	<u>2007</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES (Payable from unrestricted assets)		
Accounts payable	\$ 82,392	\$ 161,041
Accrued expenses and other liabilities	284,002	226,200
Due to the State of Tennessee - Note 10	227,414	482,046
Due to the U.S. Department of Justice - Note 10	180,000	-
Due to Wayne County, Tennessee - Note 5	1,124,235	956,835
Current portion of long-term debt - Note 6	<u>608,271</u>	<u>552,643</u>
TOTAL CURRENT LIABILITIES	<u>2,506,314</u>	<u>2,378,765</u>
CURRENT LIABILITIES (Payable from assets limited as to use)		
Patients' trust fund	<u>12,377</u>	<u>13,840</u>
LONG-TERM DEBT		
Notes and bonds payable - Note 6	3,425,804	3,461,463
Capital lease obligations - Notes 6 and 7	<u>7,452</u>	<u>13,884</u>
	3,433,256	3,475,347
Less current portion	<u>608,271</u>	<u>552,643</u>
TOTAL LONG-TERM DEBT	<u>2,824,985</u>	<u>2,922,704</u>
TOTAL LIABILITIES	<u>5,343,676</u>	<u>5,315,309</u>
NET ASSETS		
Invested in capital assets, net of related debt	429,736	623,260
Unrestricted (deficit)	<u>(1,739,817)</u>	<u>(1,701,952)</u>
TOTAL NET ASSETS (DEFICIT)	<u>(1,310,081)</u>	<u>(1,078,692)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,033,595</u>	<u>\$ 4,236,617</u>

WAYNE COUNTY RETIREMENT FACILITIES

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES		
Net resident service revenue, net of provision for bad debts of \$0 and \$90,737, respectively	\$ 5,217,997	\$ 4,064,129
Other operating revenues	<u>3,449</u>	<u>2,342</u>
TOTAL OPERATING REVENUES	<u>5,221,446</u>	<u>4,066,471</u>
OPERATING EXPENSES		
Salaries and benefits	3,365,646	3,368,534
Supplies and other	1,488,993	1,268,420
Utilities	165,453	155,415
Depreciation	<u>293,713</u>	<u>299,912</u>
TOTAL OPERATING EXPENSES	<u>5,313,805</u>	<u>5,092,281</u>
LOSS FROM OPERATIONS	<u>(92,359)</u>	<u>(1,025,810)</u>
NONOPERATING REVENUE (EXPENSE)		
Investment income	6,959	19,367
Interest expense	<u>(145,989)</u>	<u>(142,944)</u>
TOTAL NONOPERATING REVENUE (EXPENSE) - NET	<u>(139,030)</u>	<u>(123,577)</u>
CHANGE IN NET ASSETS	(231,389)	(1,149,387)
NET ASSETS (DEFICIT) - BEGINNING OF YEAR	<u>(1,078,692)</u>	<u>70,695</u>
NET ASSETS (DEFICIT) - END OF YEAR	<u>\$ (1,310,081)</u>	<u>\$ (1,078,692)</u>

See accompanying notes to financial statements.

WAYNE COUNTY RETIREMENT FACILITIES

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from residents	\$ 5,280,242	\$ 4,296,976
Payments to suppliers	(1,742,598)	(1,381,000)
Payments to employees	(3,307,844)	(3,544,557)
Other receipts	<u>3,449</u>	<u>2,342</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>233,249</u>	<u>(626,239)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from issuance of debt	100,000	550,175
Debt principal payments	(44,847)	(78,355)
Interest paid	<u>(19,459)</u>	<u>(20,851)</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>35,694</u>	<u>450,969</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of debt	-	27,861
Debt principal payments	(7,244)	-
Interest paid	(119,963)	(118,858)
Bond issue costs	(5,000)	(16,085)
Acquisition of capital assets	<u>(5,189)</u>	<u>-</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(137,396)</u>	<u>(107,082)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments received on notes receivable	1,590	1,402
Proceeds from maturities of investments	-	602,592
Investment income	<u>6,959</u>	<u>19,367</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>8,549</u>	<u>623,361</u>
INCREASE IN CASH AND CASH EQUIVALENTS FOR THE YEAR	140,096	341,009
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>388,982</u>	<u>47,973</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 529,078</u>	<u>\$ 388,982</u>

See accompanying notes to financial statements.

WAYNE COUNTY RETIREMENT FACILITIES

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Loss from operations	\$ (92,359)	\$ (1,025,810)
Adjustments to reconcile loss from operations to net cash provided by (used in) operating activities:		
Depreciation	293,713	299,912
Provision for bad debts	-	90,737
(Increase) decrease in:		
Accounts receivable and other receivables	63,708	141,328
Prepaid expenses	(10,397)	2,761
Inventories	(1,874)	1,215
Increase (decrease) in:		
Accounts payable	(78,649)	(37,668)
Accrued expenses and other liabilities	57,802	(179,237)
Payable to State of Tennessee	(254,632)	-
Payable to U.S. Department of Justice	180,000	-
Payable to Wayne County, Tennessee	77,400	78,714
Patients' trust fund	(1,463)	1,809
NET CASH PROVIDED BY (CASH USED) IN OPERATING ACTIVITIES	<u>\$ 233,249</u>	<u>\$ (626,239)</u>
 SCHEDULE OF NONCASH TRANSACTIONS:		
Amortization of bond issue costs included in interest expense	\$ 6,567	\$ 3,235
Payments on long-term debt by Wayne County	90,000	87,448

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

WAYNE COUNTY RETIREMENT FACILITIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Wayne County Retirement Facilities (the “Facilities”) are not-for-profit residential health care providers operating as a component unit of Wayne County, Tennessee (the “County”). The Facilities, under the authority of the County Commission, are comprised of two divisions, the Wayne County Nursing Home (“WCNH”) and the Wayne County Assisted Living Facility (“WCAL”). Under accounting principles generally accepted in the United States of America, the Facilities constitute component units of the County for financial reporting purposes.

Basis of accounting

The Facilities follow the accrual method of accounting whereby revenues are recognized in the period earned and expenditures are recorded at the time liabilities are incurred.

The Facilities apply all applicable Governmental Accounting Standards Board (“GASB”) pronouncements in accounting and reporting as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (“FASB”) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures. The Facilities do not apply FASB Statements or Interpretations issued after November 30, 1989.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management believes that such estimates have been based on reasonable assumptions and are adequate; however, actual results could differ from these estimates.

Cash equivalents and investments

Certificates of deposit with original maturities of three months or less when acquired are considered to be cash equivalents. All certificates of deposit are reported at cost.

WAYNE COUNTY RETIREMENT FACILITIES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008 AND 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash equivalents and investments (continued)

Statutes authorize the Facilities to invest in: (1) U.S. government securities and obligations guaranteed by the U. S. government; (2) deposit accounts at state and federal chartered banks and savings and loan associations; (3) the Local Government Investment Pool of the State of Tennessee; and (4) obligations of the United States or its agencies under repurchase agreements with certain restrictions.

Deposits with financial institutions are required by State statute to be secured and collateralized by the institutions. The collateral must meet certain requirements and must have a total minimum market value of 105% of the value of the deposits placed in the institutions less the amount protected by federal depository insurance. Collateral requirements are not applicable for financial institutions that participate in the State of Tennessee's collateral pool.

Resident accounts receivable

The Facilities' primary credit risk is resident accounts receivable, which consist of amounts owed by governmental agencies and private pay patients. The Facilities grant credit to residents and generally do not require collateral or other security in extending credit; however, the Facilities routinely obtain assignment of (or are otherwise entitled to receive) residents' benefits payable primarily under the Medicaid Program. The percentage of resident service revenue attributable to this program was approximately 72% for 2008 (74% for 2007).

The Facilities manage receivables by regularly reviewing their accounts and contracts and by providing appropriate allowances for estimated uncollectible amounts. Provision for bad debts is netted against resident service revenue. Accounts identified as uncollectible are charged off against the allowance in the period determined.

Inventories

Inventories consist primarily of medical and dietary supplies and are carried at the lower of cost, determined on the first-in, first-out method, or market.

Interfund and intrafund accounts

During the course of operations, transactions occur between and among individual funds of the County or within a single fund for goods or services rendered. Interfund receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet and are eliminated in the government-wide financial statements of the County. Intrafund receivables and payables are eliminated on the balance sheet.

WAYNE COUNTY RETIREMENT FACILITIES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008 AND 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets limited as to use

Assets limited as to use consist of restricted cash held in resident trust accounts and board designated investments in the form of certificates of deposits held for capital improvements.

Bond issue costs

Bond issue costs are capitalized and amortized on the straight-line method over the life of the related obligation. Amortization expense amounted to \$6,567 in 2008 (\$3,235 in 2007) and is included in interest expense.

Land, building and equipment

Land, building and equipment are recorded at cost. Depreciable assets are depreciated using the straight-line method over estimated useful lives of 6 to 40 years for building and improvements, and 3 to 10 years for major moveable equipment, fixtures, and automobiles.

Accrual for compensated absences

The Facilities' full-time employees earn vacation days as follows:

Less than 10 years service	12 days per year
10 – 20 years service	18 days per year
Over 20 years service	24 days per year

The Facilities' part-time employees working 20 or more hours per week earn one vacation day for every 22 days worked. If an employee is dismissed for cause or fails to give proper notice prior to leaving, the employee is not paid for the accumulated vacation days. The accumulation of vacation days is limited to one year's vacation allowance, except by permission of the Administrator. Vacation expense is accrued and included in accrued expenses and other liabilities as earned. Sick pay is expensed when paid or payable since it does not vest.

Net resident service revenue

Net resident service revenue is reported as services are rendered at estimated net realizable amounts from residents, third-party payors, and others for services rendered. The provision for bad debts is netted against net resident revenue.

The Facilities currently participate in the Medicaid Intermediate Care Program (the "Medicaid Program"). The Medicaid Program reimburses the Facilities for the cost of intermediate care services rendered to Medicaid beneficiaries at a prospective rate which is based on the lower of the reimbursable cost of services rendered to intermediate care beneficiaries or a reimbursement cap established by Medicaid. The reimbursement cap is expressed as a per diem amount.

WAYNE COUNTY RETIREMENT FACILITIES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008 AND 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE 2 – CASH AND INVESTMENTS

The Facilities hold no investments as of June 30, 2008 and 2007.

At June 30, 2008, the Facilities' cash and investments amounted to \$529,078. Bank balances for such amounts totaled \$558,310, of which \$153,729 was insured by the Federal Deposit Corporation (FDIC). A portion of the remaining balance was secured by collateral held by the Facilities' Agent in the Facilities' name. As of June 30, 2008, the Facilities were under collateralized by \$79,072.

Subsequent to year end, the Emergency Economic Stabilization Act of 2008 temporarily increased FDIC coverage from \$100,000 to \$250,000 per depositor, effective October 3, 2008 through December 31, 2009.

NOTE 3 – NOTES RECEIVABLE

The Facilities have the following notes receivable due from Wayne County Senior Citizens Center at June 30:

	<u>2008</u>	<u>2007</u>
Note receivable, due in monthly installments of principal and interest (at 4.0%) of \$150 through December 2022.	\$ 19,791	\$ 20,778
Note receivable, due in monthly installments of principal and interest (at 4.0%) of \$167 through January 2038.	<u>34,762</u>	<u>35,365</u>
	54,553	56,143
Less current portion	<u>(1,684)</u>	<u>(1,589)</u>
	<u>\$ 52,869</u>	<u>\$ 54,554</u>

WAYNE COUNTY RETIREMENT FACILITIES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008 AND 2007

NOTE 4 – LAND, BUILDING AND EQUIPMENT

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 111,900	\$ -	\$ -	\$ 111,900
Capital assets, being depreciated:				
Buildings and improvements	4,205,652	5,189	-	4,210,841
Furniture and equipment	1,884,880	-	-	1,884,880
Automobiles	28,873	-	-	28,873
	<u>6,119,405</u>	<u>5,189</u>	<u>-</u>	<u>6,124,594</u>
Less accumulated depreciation:				
Buildings and improvements	1,692,064	157,897	-	1,849,961
Furniture and equipment	903,887	134,816	-	1,038,703
Automobiles	26,290	1,000	-	27,290
	<u>2,622,241</u>	<u>293,713</u>	<u>-</u>	<u>2,915,954</u>
Total capital assets, being depreciated, net	<u>3,497,164</u>	<u>(288,524)</u>	<u>-</u>	<u>3,208,640</u>
Total capital assets, net	<u>\$ 3,609,064</u>	<u>\$ (288,524)</u>	<u>\$ -</u>	<u>\$ 3,320,540</u>

Depreciation expense amounted to \$293,713 in 2008 (\$299,912 in 2007).

NOTE 5 – INTERFUND PAYABLES

WCAL has an interfund payable to the County for \$1,124,235 as of June 30, 2008 (\$956,835 for 2007), all of which is due on demand. Of this amount, \$152,173 represents the excess of construction costs of the building over the amount financed by the bonds. The remainder of the payable resulted from advances for bond principal and interest payments the County made on behalf of WCAL.

WAYNE COUNTY RETIREMENT FACILITIES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008 AND 2007

NOTE 6 -- NOTES AND BONDS PAYABLE

Changes in long-term debt were as follows for the year ended June 30, 2008:

	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>	<u>One Year</u>
Notes and Bonds Payable					
Nursing Home Capital Outlay Notes Series 2005 - interest rate of 2.90%, maturing over a 6-year period, with the first payment made August 1, 2005, and the final payment due February 1, 2012.	\$ 525,804	\$ -	\$ -	\$ 525,804	\$ 251,635
Nursing Home General Obligation Notes Series 2006 - interest rate of 4.05%, maturing over a 25-year period, with the first payment made December 1, 2006, and the final payment due June 1, 2031.	615,000	-	5,000	610,000	20,000
Nursing Home General Obligation Notes Series 2007 - interest rate of 5.00%, with entire balance due December 1, 2009.	200,000	-	-	200,000	-
Nursing Home 5.76% demand note payable to People's Bank, if no demand then due in monthly installments of \$8,625, final payment made September 10, 2007.	25,659	-	25,659	-	-
Nursing Home 6.50% demand note payable to Wayne County Bank, principal and interest paid at maturity on June 20, 2009.	100,000	-	5,000	95,000	95,000
Nursing Home 6.56% demand note payable to Bank of Waynesboro, if no demand then principal and interest due January 3, 2010, collateralized by deposit accounts.	150,000	-	10,000	140,000	140,000
Nursing Home General Obligation Notes Series 2007A - interest rate of 5.50%, with entire balance due July 15, 2009.	-	100,000	-	100,000	-
Assisted Living Facility Lease Revenue and Tax Bonds Series 2001 - interest rate of 4.30%, maturing over a 20-year period, with the first payment made October 1, 2002, and the final payment due October 1, 2021.	<u>1,845,000</u>	<u>-</u>	<u>90,000</u>	<u>1,755,000</u>	<u>95,000</u>
Total notes and bonds payable	3,461,463	100,000	135,659	3,425,804	601,635
Capital lease obligations - Note 7	<u>13,884</u>	<u>-</u>	<u>6,432</u>	<u>7,452</u>	<u>6,636</u>
Total long-term debt	<u>\$3,475,347</u>	<u>\$ 100,000</u>	<u>\$ 142,091</u>	<u>\$ 3,433,256</u>	<u>\$ 608,271</u>

WAYNE COUNTY RETIREMENT FACILITIES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008 AND 2007

NOTE 6 – NOTES AND BONDS PAYABLE (CONTINUED)

A schedule of annual principal maturities of notes and bonds payable as of June 30, 2008, follows:

<u>Year ending June 30,</u>	<u>Bond Indebtedness</u>	
	<u>Principal</u>	<u>Interest</u>
2009	601,635	210,827
2010	498,789	109,130
2011	206,365	93,505
2012	214,015	85,840
2013	125,000	77,884
2014 - 2031	<u>1,780,000</u>	<u>478,750</u>
	<u>\$ 3,425,804</u>	<u>\$ 1,055,936</u>

NOTE 7 – CAPITAL LEASES

The Facilities have entered into two long-term agreements, accounted for as capital leases, for certain furniture and equipment. The capitalized assets and related liabilities were recorded at the present value of the future minimum payments due under the leases.

The following is a schedule, by year, of future minimum lease payments required under the leases, together with the present value of the net minimum lease payments, as of June 30, 2008:

<u>Year ending June 30:</u>	
2009	\$ 6,972
2010	<u>622</u>
Total minimum lease payments	7,594
Less: Discount for interest	<u>142</u>
Present value of minimum lease payments	<u>\$ 7,452</u>

A summary as of June 30, 2008, of the leased assets, which are included in land, building and equipment, follows:

Total assets leased under capital leases	26,544
Less accumulated depreciation	<u>(13,830)</u>
	<u>\$ 12,714</u>

WAYNE COUNTY RETIREMENT FACILITIES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008 AND 2007

NOTE 8 – PENSION PLAN

Plan Description

Employees of the Facilities are part of the Wayne County General Fund Court which participates in the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at age 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the *Tennessee Code Annotated* (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Wayne County General Fund Court participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body. The Facilities' contribution to this plan was \$195,026 in 2008 (\$199,511 in 2007.)

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or can be accessed at <http://treasury.state.tn.us/tcrs/PS/>.

Since the Facilities participate in Wayne County General Fund Court's plan, pension information for the Facilities is not available separately from the pension information provided for the County. Complete disclosure for the County's participation in the TCRS is described in the footnotes of the Annual Financial Report of Wayne County, Tennessee.

Funding Policy

Wayne County General Fund Court requires employees to contribute 5.00% of earnable compensation.

Wayne County General Fund Court is required to contribute at an actuarially determined rate; the rate was 8.74% for the fiscal years ended June 30, 2008 and 2007. The contribution requirement of plan members is set by state statute. The contribution requirement for Wayne County General Fund Court is established and may be amended by the TCRS Board of Trustees.

WAYNE COUNTY RETIREMENT FACILITIES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008 AND 2007

NOTE 9 – CONTINGENT LIABILITIES

The Facilities are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Facilities have elected to obtain various insurance policies to transfer risk to a commercial insurance company. Insurance settlements have not been in excess of insurance coverage in any of the prior three years.

The Facilities are also subject to claims and suits arising in the ordinary course of business, including workers' compensation claims and claims arising from services provided to residents in the past. In management's opinion, the Facilities are currently not a party to any proceeding, the ultimate resolution of which will have a material adverse effect on the Facilities' results of operations or financial condition. Accordingly, no liability for any such loss has been provided.

NOTE 10 – PAYABLES TO THE STATE OF TENNESSEE AND THE U.S. DEPARTMENT OF JUSTICE

On January 23, 2007, the Comptroller of the Treasury for the State of Tennessee (State) issued a report based upon its audit of the Medicaid cost report submitted by WCNH for the period July 1, 2003 through June 30, 2004, and the resident accounts for the period July 1, 2003 through July 1, 2004. The State found that WCNH had included \$305,928 of nonallowable expenses, which was accrued in a prior year and paid during the 2008 fiscal year.

In January, 2007, the Comptroller of the Treasury for the State of Tennessee also issued a preliminary report based on its audit of the Medicaid cost report submitted by WCNH for the period July 1, 2002 through June 30, 2003, and the resident accounts for the period July 1, 2002 through July 1, 2003. The State found that WCNH had included \$131,118 of nonallowable expenses.

An additional \$96,296 was assessed by the State of Tennessee as a correction for revenue recognized associated with leave days.

Total nonallowable expenses of \$437,046 were accrued and recognized under operating expenses, with a corresponding liability to the State, as of and for the year ended June 30, 2006. In addition, for the correction associated with leave days, revenue was initially reduced by \$45,000 with a corresponding liability to the State as of and for the year ended June 30, 2006, with a second adjustment of \$51,296 recorded as of and for the year ended June 30, 2008, for a total adjustment of \$96,296. WCNH's outstanding obligation to the State as of June 30, 2008 was \$227,414 (\$482,046 at 2007).

During March, 2009, WCNH reached an agreement with the State and the U.S. Department of Justice related to the 2003 and 2004 Cost Reports. The agreement provides for a \$180,000 settlement, payable by WCNH in eight equal payments of \$22,500 with interest accruing at 4%. The settlement has been accrued and recognized by the Facilities as a liability as of June 30, 2008.

WAYNE COUNTY RETIREMENT FACILITIES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008 AND 2007

NOTE 11 – DEFICIT FUND BALANCE

The Facilities have a deficit unrestricted net assets of \$1,739,817 at June 30, 2008 (\$1,701,952 in 2007) and a total deficit net assets of \$1,310,081 at June 30, 2008 (\$1,078,692 in 2007).

ADDITIONAL INFORMATION

WAYNE COUNTY RETIREMENT FACILITIES

COMBINING SCHEDULES OF NET ASSETS

JUNE 30, 2008 AND 2007

ASSETS	JUNE 30, 2008				JUNE 30, 2007			
	WCNH	WCAL	ELIMINATIONS	TOTAL	WCNH	WCAL	ELIMINATIONS	TOTAL
CURRENT ASSETS								
Cash and cash equivalents - unrestricted	\$ 463,784	\$ 52,917	\$ -	\$ 516,701	\$ 370,697	\$ 4,445	\$ -	\$ 375,142
Resident accounts receivable, net of allowance for uncollectible accounts	18,548	-	-	18,548	77,913	-	-	77,913
Intrafund receivable	157,404	-	(157,404)	-	156,229	-	(156,229)	-
Notes receivable - current portion	1,684	-	-	1,684	1,589	-	-	1,589
Other receivables	-	-	-	-	4,343	-	-	4,343
Prepaid insurance	35,206	-	-	35,206	24,809	-	-	24,809
Inventories	19,727	-	-	19,727	17,853	-	-	17,853
TOTAL CURRENT ASSETS	696,353	52,917	(157,404)	591,866	653,433	4,445	(156,229)	501,649
ASSETS LIMITED AS TO USE								
Cash and cash equivalents - restricted	12,377	-	-	12,377	13,840	-	-	13,840
TOTAL ASSETS LIMITED AS TO USE	12,377	-	-	12,377	13,840	-	-	13,840
OTHER ASSETS								
Bond issue costs, net of accumulated amortization	16,865	39,078	-	55,943	15,641	41,869	-	57,510
Notes receivable, excluding current portion	52,869	-	-	52,869	54,554	-	-	54,554
TOTAL OTHER ASSETS	69,734	39,078	-	108,812	70,195	41,869	-	112,064
LAND, BUILDING AND EQUIPMENT - at cost, net of accumulated depreciation	1,443,333	1,877,207	-	3,320,540	1,650,892	1,958,172	-	3,609,064
TOTAL ASSETS	\$ 2,221,797	\$ 1,969,202	\$ (157,404)	\$ 4,033,595	\$ 2,388,360	\$ 2,004,486	\$ (156,229)	\$ 4,236,617

WAYNE COUNTY RETIREMENT FACILITIES

COMBINING SCHEDULES OF NET ASSETS (CONTINUED)

JUNE 30, 2008 AND 2007

	JUNE 30, 2008				JUNE 30, 2007			
	WCNH	WCAL	ELIMINATIONS	TOTAL	WCNH	WCAL	ELIMINATIONS	TOTAL
<u>LIABILITIES AND NET ASSETS</u>								
<u>CURRENT LIABILITIES (Payable from unrestricted assets)</u>								
Accounts payable	\$ 72,993	\$ 9,399	\$ -	\$ 82,392	\$ 154,572	\$ 6,469	\$ -	\$ 161,041
Accrued expenses and other liabilities	251,615	32,387	-	284,002	196,683	29,517	-	226,200
Due to the State of Tennessee	227,414	-	-	227,414	482,046	-	-	482,046
Due to the U.S. Department of Justice	180,000	-	-	180,000	-	-	-	-
Intrafund payable	-	157,404	(157,404)	-	-	156,229	(156,229)	-
Due to Wayne County, Tennessee	-	1,124,235	-	1,124,235	-	956,835	-	956,835
Current portion of long-term debt	510,823	97,448	-	608,271	460,195	92,448	-	552,643
TOTAL CURRENT LIABILITIES	1,242,845	1,420,873	(157,404)	2,506,314	1,293,496	1,241,498	(156,229)	2,378,765
<u>CURRENT LIABILITIES (Payable from assets limited as to use)</u>								
Patients' trust fund	12,377	-	-	12,377	13,840	-	-	13,840
<u>LONG-TERM DEBT</u>								
Notes and bonds payable	1,670,804	1,755,000	-	3,425,804	1,616,463	1,845,000	-	3,461,463
Capital lease obligation	4,188	3,264	-	7,452	8,376	5,508	-	13,884
Less current portion	1,674,992	1,758,264	-	3,433,256	1,624,839	1,850,508	-	3,475,347
	510,823	97,448	-	608,271	460,195	92,448	-	552,643
TOTAL LONG-TERM DEBT	1,164,169	1,660,816	-	2,824,985	1,164,644	1,758,060	-	2,922,704
TOTAL LIABILITIES	2,419,391	3,081,689	(157,404)	5,343,676	2,471,980	2,999,558	(156,229)	5,315,309
<u>NET ASSETS</u>								
Invested in capital assets, net of related debt	307,529	122,207	-	429,736	510,088	113,172	-	623,260
Unrestricted (deficit)	(505,123)	(1,234,694)	-	(1,739,817)	(593,708)	(1,108,244)	-	(1,701,952)
TOTAL NET ASSETS (DEFICIT)	(197,594)	(1,112,487)	-	(1,310,081)	(83,620)	(995,072)	-	(1,078,692)
TOTAL LIABILITIES AND NET ASSETS	\$ 2,221,797	\$ 1,969,202	\$ (157,404)	\$ 4,033,595	\$ 2,388,360	\$ 2,004,486	\$ (156,229)	\$ 4,236,617

WAYNE COUNTY RETIREMENT FACILITIES

COMBINING SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2008 AND 2007

	2008				2007			
	WCNH	WCAL	ELIMINATIONS	TOTAL	WCNH	WCAL	ELIMINATIONS	TOTAL
OPERATING REVENUES								
Net resident service revenue, net of provision for bad debts	\$ 4,846,105	\$ 371,892	\$ -	\$ 5,217,997	\$ 3,791,137	\$ 272,992	\$ -	\$ 4,064,129
Other operating revenues	3,449	-	-	3,449	2,342	-	-	2,342
TOTAL OPERATING REVENUES	4,849,554	371,892	-	5,221,446	3,793,479	272,992	-	4,066,471
OPERATING EXPENSES								
Salaries and benefits	3,181,184	184,462	-	3,365,646	3,192,011	176,523	-	3,368,534
Supplies and other	1,391,841	97,152	-	1,488,993	1,197,632	70,788	-	1,268,420
Utilities	120,945	44,508	-	165,453	119,755	35,660	-	155,415
Depreciation	212,748	80,965	-	293,713	218,948	80,964	-	299,912
TOTAL OPERATING EXPENSES	4,906,718	407,087	-	5,313,805	4,728,346	363,935	-	5,092,281
LOSS FROM OPERATIONS	(57,164)	(35,195)	-	(92,359)	(934,867)	(90,943)	-	(1,025,810)
NONOPERATING REVENUE (EXPENSE)								
Investment income	9,934	308	(3,283)	6,959	22,664	450	(3,747)	19,367
Interest expense	(66,744)	(82,528)	3,283	(145,989)	(59,904)	(86,787)	3,747	(142,944)
TOTAL NONOPERATING REVENUE (EXPENSE) - NET	(56,810)	(82,220)	-	(139,030)	(37,240)	(86,337)	-	(123,577)
CHANGE IN NET ASSETS	(113,974)	(117,415)	-	(231,389)	(972,107)	(177,280)	-	(1,149,387)
NET ASSETS (DEFICIT) - BEGINNING OF YEAR	(83,620)	(995,072)	-	(1,078,692)	888,487	(817,792)	-	70,695
NET ASSETS (DEFICIT) - END OF YEAR	\$ (197,594)	\$ (1,112,487)	\$ -	\$ (1,310,081)	\$ (83,620)	\$ (995,072)	\$ -	\$ (1,078,692)

WAYNE COUNTY RETIREMENT FACILITIES

COMBINING SCHEDULES OF CASH FLOWS

YEARS ENDED JUNE 30, 2008 AND 2007

	2008			2007		
	WCNH	WCAL	ELIMINATIONS	WCAL	ELIMINATIONS	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from residents	\$ 4,908,350	\$ 371,892	\$ -	\$ 4,023,984	\$ 272,992	\$ 4,296,976
Payments to suppliers	(1,682,443)	(60,155)	-	(1,355,827)	(25,173)	(1,381,000)
Payments to employees	(3,126,252)	(181,592)	-	(3,369,637)	(174,920)	(3,544,557)
Other receipts	3,449	-	-	2,342	-	2,342
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	103,104	130,145	-	(699,138)	72,899	(626,239)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Proceeds from issuance of debt	100,000	-	-	550,175	-	550,175
Debt principal payments	(44,847)	-	-	(78,355)	-	(78,355)
Interest paid	(19,459)	-	-	(20,851)	-	(20,851)
NET CASH PROVIDED BY NONCAPITAL FINANCING	35,694	-	-	450,969	-	450,969
CASH FLOWS FROM CAPITAL AND RELATED FINANCING						
Activities						
Proceeds from issuance of debt	-	-	-	27,861	-	27,861
Debt principal payments	(5,000)	(2,244)	-	-	-	-
Interest paid	(43,509)	(79,737)	3,283	(38,609)	(83,996)	(118,858)
Bond issue costs	(5,000)	-	-	(16,085)	-	(16,085)
Acquisition of capital assets	(5,189)	-	-	-	-	-
NET CASH USED IN CAPITAL AND RELATED FINANCING	(58,698)	(81,981)	3,283	(26,833)	(83,996)	(107,082)
CASH FLOWS FROM INVESTING ACTIVITIES						
Payments received on notes receivable	1,590	-	-	1,402	-	1,402
Proceeds from maturities of investments	-	-	-	602,592	-	602,592
Investment income	9,934	308	(3,283)	22,664	450	19,367
NET CASH PROVIDED BY INVESTING ACTIVITIES	11,524	308	(3,283)	626,658	(3,747)	623,361
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FOR THE YEAR	91,624	48,472	-	351,656	(10,647)	341,009
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	384,537	4,445	-	32,881	15,092	47,973
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 476,161	\$ 52,917	\$ -	\$ 384,537	\$ 4,445	\$ 388,982

WAYNE COUNTY RETIREMENT FACILITIES

COMBINING SCHEDULES OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 2008 AND 2007

	2008				2007			
	WCNH	WCAL	ELIMINATIONS	TOTAL	WCNH	WCAL	ELIMINATIONS	TOTAL
RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES								
Loss from operations	\$ (57,164)	\$ (35,195)	\$ -	\$ (92,359)	\$ (934,867)	\$ (90,943)	\$ -	\$ (1,025,810)
Adjustments to reconcile loss from operations to net cash provided by (used in) operating activities:								
Depreciation	212,748	80,965	-	293,713	218,948	80,964	-	299,912
Provision for bad debts	-	-	-	-	90,737	-	-	90,737
(Increase) decrease in:								
Accounts receivable and other receivables	63,708	-	-	63,708	141,328	-	-	141,328
Intrafund receivable (payable)	(1,175)	1,175	-	-	(6,229)	6,229	-	-
Prepaid expenses	(10,397)	-	-	(10,397)	2,761	-	-	2,761
Inventories	(1,874)	-	-	(1,874)	1,215	-	-	1,215
Increase (decrease) in:								
Accounts payable	(81,579)	2,930	-	(78,649)	(37,214)	(454)	-	(37,668)
Accrued expenses and other liabilities	54,932	2,870	-	57,802	(177,626)	(1,611)	-	(179,237)
Payable to State of Tennessee	(254,632)	-	-	(254,632)	-	-	-	-
Payable to U.S. Department of Justice	180,000	-	-	180,000	-	-	-	-
Payable to Wayne County, Tennessee	-	77,400	-	77,400	-	78,714	-	78,714
Patients' trust fund	(1,463)	-	-	(1,463)	1,809	-	-	1,809
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 103,104	\$ 130,145	\$ -	\$ 233,249	\$ (699,138)	\$ 72,899	\$ -	\$ (626,239)
SCHEDULE OF NONCASH TRANSACTIONS:								
Amortization of bond issue costs included in interest expense	\$ 3,776	\$ 2,791	\$ -	\$ 6,567	\$ 444	\$ 2,791	\$ -	\$ 3,235
Payments on long-term-debt by Wayne County	-	90,000	-	90,000	-	87,448	-	87,448

OTHER REPORT



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

Wayne County General Hospital Board of Trustees
Wayne County Retirement Facilities
Waynesboro, Tennessee

We have audited the accompanying financial statements of Wayne County Retirement Facilities (the "Facilities"), a component unit of Wayne County, Tennessee, as of and for the years ended June 30, 2008 and 2007, and have issued our report thereon dated June 29, 2009. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Facilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Facilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Facilities' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS (CONTINUED)

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Facilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Wayne County Retirement Facilities in a separate letter dated June 29, 2009.

Wayne County Retirement Facilities' responses to the findings identified in our audits are described in the accompanying schedule of findings and responses. We did not audit the Facilities' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

Kraft CPAs PLLC

Columbia, Tennessee
June 29, 2009

SCHEDULE OF FINDINGS AND RESPONSES

I. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT AS REQUIRED TO BE REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*:

A. Compliance Findings

(C-05-2) Tennessee Code Annotated 5-14-108 states that all contracts for purchases of supplies, materials, equipment and contractual services, all contracts for the lease or rental of equipment, and all sales of county-owned property that has become surplus, obsolete or unusable, shall be based wherever possible on competitive bids.

Wayne County Nursing Home did not obtain competitive bids for construction projects greater than \$5,000.

Status at 6/30/08

Resolved